

## **Economic Contribution Montana Cooperatives Make to the State Economy \***

Note: this is a corrected version (as of February 15, 2012) of the study are originally posted

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Cooperatives are an important and popular form of business organization in Montana. Cooperatives have long been viewed as important businesses in the agricultural sector of the state. Not all cooperatives in Montana are farm related, with many other sectors of the economy being represented in this type of business structure. The list includes such diverse areas as electric generation and transmission, telephone, rural water, credit and finance, food purchasing and child day-care cooperatives.

Measuring the economic contributions of cooperatives to the state's economy can provide an indication of how this type of business structure adds to the state's economy in terms of key indicators. This study will not look at a specific industry, but rather includes all industries organized under the cooperative business structure. Cooperatives throughout Montana are valued by citizens, in general, for their purpose within the state economy; however, a clear estimate of their economic contribution to the state's economy has never been conducted. This research project provides estimates of the contribution Montana cooperatives make to the state's economy measured in terms of such key economic indicators as retail trade, personal income, total business activity, employment, and tax revenue.

### **METHODOLOGY**

Montana is a state slightly larger (376980 km<sup>2</sup>) than unified Germany with a population of 910,000 citizens and a population density of 6.2 (2.51/km<sup>2</sup>) persons per square mile. Montana currently has 89 cooperatives (USDA Rural Business Service, 2008) related to agriculture (farm supply, agricultural processing, and grain handling). In addition, 32 utility and 60 financial cooperatives were operating in the state in 2008. Farm supply cooperatives have declined from 132 in 1993 (USDA Rural Business Service, 2008) to 89 in 2008. Although these losses were moderate, they probably can be explained by the continuing trend to larger (and fewer) farms and the growth in the number of shuttle train loading facilities in Montana. Montana has 15 shuttle train loading facilities with at least 110 car freight train capacity. Between 2001 and 2008 the number of agricultural product processing cooperatives increased from 3 to 7. Financial cooperatives decreased slightly (63 to 60) during the 2001 to 2008 period.

A preliminary survey instrument (See Appendix A) was developed and distributed to agricultural cooperative business operating in Montana in fall, 2010. Expenditures of cooperatives operating in Montana will provide the basic data for this study. Representative samples were obtained for the farm supply (n=15), credit (n=24), marketing (n=7), utility (n=19), and other (n=3) cooperatives. Rural electric and telephone cooperatives formed the Utility type cooperative category. Mean values were determined for selected expenditure categories for each cooperative type. These values were applied to the respective number of cooperatives to

determine total in-state expenditures for each cooperative type. It is not the intent of this study to analyze the complete economic contribution for each cooperative type, but rather for a representative sample of cooperatives for each type of cooperative in the state. Montana cooperatives' in-state direct expenditures totaled over \$400 million in 2009 (Table1), based on data provided by the survey. The largest expenditure categories were payroll and dividends paid to members (patronage refunds). These expenditures accounted for almost 52 percent of cooperative expenditures. See Tables 4 and 5 for more details regarding these expenditures. Another major category of spending was for supplies and materials. Most of the cooperatives' spending was for the purchase of members' products, for workers' salaries, and refunds to members.

Table 1. Montana Direct Expenditures, by Cooperative Type Operating in Montana in 2009 (n=68).

Type	Number Reporting	Expenditure --- \$--	Ave. Expenditures by Coop type --- \$\$s---
Utilities	19	\$235,808,414	\$16,843,458
Credit	24	\$68,908,758	\$2,871,198
Farm			
Supply	15	\$72,391,973	\$4,826,132
Marketing	7	\$25,872,325	\$3,696,046
Other	3	\$776,910	\$258,970
<b><u>TOTAL</u></b>	<b>68</b>	<b>\$403,758,380</b>	<b><u>Ave.</u> <u>Exp.</u> \$5,699,161</b>

Montana Cooperative business activity also contributes to the state tax revenue. Total taxes attributable to cooperative businesses represented by returned surveys (n=68) were estimated to be \$13.6 million (Table 3). Direct employment for cooperatives was obtained from the survey. Cooperatives provided full-time jobs for 2,458 workers and part-time employment for another 430 people (Table 2). It was not possible to convert the part-time workers to full-time equivalents. Direct expenditures by cooperatives also create secondary, or indirect and induced, employment in the state. These are jobs that arise to serve and support the economic activity resulting from cooperatives operating in Montana.

Table 2. Montana Employment by Cooperative Type Operating in Montana in 2009 (n=68).

Type	Full Time Workers	Part Time Workers
Utilities	905	32
Credit	589	37

Farm Supply	760	246
Marketing	192	101
Other	12	14
<b>TOTAL</b>	<b>2458</b>	<b>430</b>

As a means of demonstrating a Montana cooperative's impact on a community, Table 2a provides details of the average payroll and average number of employees for each cooperative type. This provides the basis for a multiplier effect in each community served by a cooperative. For example, a cooperative in a Montana community is able to expand one of its business divisions. How will a one dollar change in output by that particular business affect other sectors of the local economy? Let's consider the original dollar coming into the community. Let's say 60 cents of that dollar flows out of a Montana community through nonlocal taxes, equipment purchases and other items. Therefore, 40 cents remains for local wages, taxes, raw materials and rent. Of the 40 cents that is spent locally, only 16 cents remain in the community (again 60 percent leakage). Of the 16 cents respent locally only six cents remain, and when that is respent only three cents remain, and finally less than one cent. At this point, it is difficult to measure further impact. This example illustrates that the economic impacts resulting from a one dollar change in the cooperative payroll leads to a change of \$1.66 in the local economy.

Table 2a. Average Payroll Per Cooperative Type

	Average	Ave. No. of full time employees	n=
Utilities	\$2,827,032.63	47.63	19
Credit	\$1,140,818.08	24.54	24
Farm Supply	\$1,894,046.87	50.67	15
Marketing	\$1,008,343.71	27.43	7
Other	\$165,872.33	4.00	3

Not millions in the heading?

Table 3. Montana State Tax Revenue Paid by Cooperative Type

Operating in Montana in 2009 (n=68).	
Type	Taxes Paid
Utilities	\$10,213,983.00
Credit	\$1,805,334.00
Farm Supply	\$1,091,558.00

Marketing	\$553,048.00
Other	\$0.00
<b>TOTAL</b>	<b>\$13,663,923.00</b>

Payroll amounts per type of cooperative differed with Utility cooperatives paying a much higher proportion of worker benefits than any other type of cooperative category. Roughly one third of all Utility worker payments were in the form of worker benefits. Only one fourth of worker compensation comprised worker benefits in the Farm Supply category while less than 25% of worker benefits made up workers' compensation in the Marketing cooperative type category.

Table 4. Payroll and Worker Benefits Generated by Cooperative Type  
Operating in Montana in 2009

(n=68).

Type	Payroll	Worker Benefits
Utilities	\$53,713,620	\$25,977,090
Credit	\$27,379,634	\$10,318,485
Farm Supply	\$28,410,703	\$6,805,231
Marketing	\$7,058,406	\$2,301,300
Other	\$497,617	\$101,866
<b>TOTAL</b>	<b>\$117,059,980</b>	<b>\$45,503,972</b>

Table 5 depicts the dividends paid to members by category. It is worth noting that the largest returns of dividends to members per cooperative reporting were in the marketing and farm supply types while the Utility and Credit cooperatives returned less dividends to their members based on the number of cooperatives returning the survey.

Table 5. Dividends paid to Members by Cooperative Type  
Operating in Montana in 2009 (n=68).

Type	Dividends Paid
Utilities	\$9,715,101.00
Credit	\$14,951,696.00
Farm Supply	\$18,258,913.00
Marketing	\$3,314,080.00
Other	\$0.00
<b>TOTAL</b>	<b>\$46,239,790.00</b>

It is generally known that cooperatives are an important component of the Montana economy, especially in rural Montana. This study provided data regarding cooperatives' contributions in terms of employment, business activity, and taxes. Jobs created by cooperatives

employ many workers, especially in rural Montana. Cooperatives help to integrate agricultural processing, thereby adding value to raw materials produced in the state. Goals of cooperatives, to increase product prices and reduce costs for its member-owners, help keep more dollars in the Montana. Profits from cooperative operations also tend to remain in Montana in the form of patronage refunds. Providing concrete economic data for these factors supports the assertion that cooperatives are playing a vital role in the Montana economy.

A culminating reason for starting a cooperative comes down to economics. Will the cooperative increase the profits or welfare of the owner-members at their business level? There are many economic advantages to the cooperative form of business. Any one or all of these advantages may be a reason enough for forming or sustaining cooperatives in Montana. Understanding the economic benefits of a cooperative is absolutely essential to making wise business decisions. Entrepreneurs may be motivated to form such a business because they believe it can improve their well-being. With local ownership and control, and net profits distributed to those who use the cooperative, cooperatives are considered by some to be an ideal model for local economic development, regardless if the setting is rural or urban (Cooperatives in Community Development, Kimberly Zeuli, 2002). Montana cooperatives unite people, resources, and capital into larger economic units which adds to the viability of the state's communities.

Cooperatives in Community Development

[http://www.uwcc.wisc.edu/pdf/Bulletins/bulletin\\_09\\_02.pdf](http://www.uwcc.wisc.edu/pdf/Bulletins/bulletin_09_02.pdf)

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**Appendix A**

**The purpose of this survey is to gather business information about Montana cooperatives. The study is voluntary. If you agree to participate, your responses will be anonymous and confidential. There is no consequence for non-participation in this research. There are no risks beyond the minimal associated with your participation in this study. It is also understood that you may later refuse to participate, and that you may withdraw from the study at any time.**

1. What is your principal business? \_\_\_\_\_ Farm supply, \_\_\_\_\_ Grain handling & merchandising, \_\_\_\_\_ Processing & marketing ag. products, \_\_\_\_\_ Utilities (electricity, telephone), \_\_\_\_\_ Credit, \_\_\_\_\_ Other (specify) \_\_\_\_\_

2. Total number of workers:  
Full-time workers \_\_\_\_\_  
Part-time workers \_\_\_\_\_

3. Total annual revenue (most recent fiscal year): \$ \_\_\_\_\_

4. Expenditures (to entities within Montana):

Payroll (wages, salaries)	\$ _____
Worker benefits	_____
Utilities (electricity, nat. gas)	_____
Communications	_____
Transportation (freight)	_____
Insurance	_____
Interest payments	_____
Construction, repair, &/or maintenance contracts	_____
Supplies/materials	_____
Business & professional services	_____
Montana taxes	_____
Dividends to members	_____

Other (specify):  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_